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ABSTRACT

The following 10 common challenges faced by small business owners in managing their companies are discussed in this monograph: (1) knowing the business; (2) knowing the basics of business management; (3) having the proper attitude; (4) having adequate capital; (5) managing finances effectively; (6) managing time efficiently; (7) managing people; (8) satisfying customers by providing high quality; (9) knowing how to compete; and (10) coping with regulations and paperwork. (NLA)

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THE CHALLENGES OF MANAGING A SMALL BUSINESS

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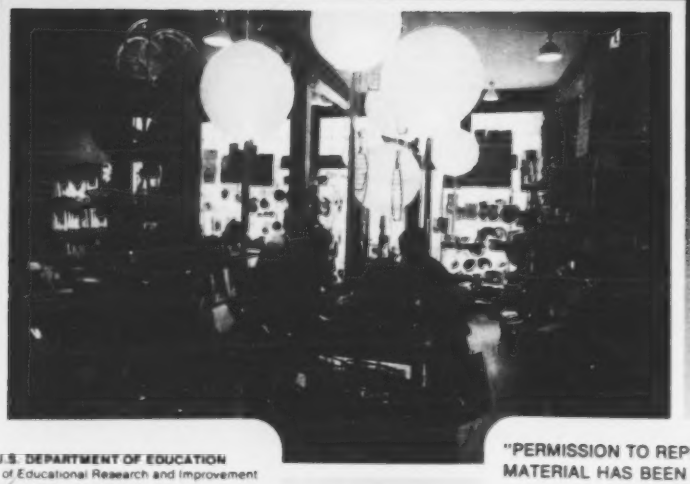

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The Ten Challenges

The ten common challenges faced by small business owners in managing their companies:

1. Knowing Your Business
2. Knowing the Basics of Business Management
3. Having the Proper Attitude
4. Having Adequate Capital
5. Managing Finances Effectively
6. Managing Time Efficiently
7. Managing People
8. Satisfying Customers by Providing High Quality
9. Knowing How to Compete
10. Coping with Regulations and Paperwork

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CHALLENGES OF MANAGING A SMALL BUSINESS:

Small Business Talks to Small Business

Owning your own business. It is the very thread from which the fabric of the American dream is woven. Almost as soon as word of Christopher Columbus' discovery became public, people began coming to America from all corners of the world to seek such opportunity.

A vital source of innovation and ideas, small businesses are still the foundation of the American economy. For example, based on statistics gathered from Dun & Bradstreet, more than 90% of American businesses employ 50 or fewer employees. In fact, over *half* of those businesses employ from one to four employees.

But such dreams come with inherent challenges. The issues identified during business research conducted more then ten years ago, for example, remain the fundamental issues of today; only their priority has changed.

What are these challenges? How can you prepare yourself to meet them? What can you expect if you decide to develop an idea to fruition? How do experienced and successful small business owners manage their businesses?

The answers to these important questions can provide valuable insight and support for small business owners at any stage of a venture. Toward that end, Dun & Bradstreet conducted research in which groups of small business owners talked candidly about their businesses to each other. From

these discussions emerged ten "Challenges of Managing a Small Business," and the perspectives of small business owners at all stages of a company's life. Although only experience can provide most of the answers, it is hoped that these views and discussions will provide useful information for anyone contemplating a new venture or currently managing one — as well as comfort in the realization that these challenges are not faced alone, and encouragement that they can be met with stunning success.

The Ten Challenges

Discussions between groups of small business owners revealed ten common challenges faced by small business owners:

1. **Knowing Your Business**
2. **Knowing the Basics of Business Management**
3. **Having the Proper Attitude**
4. **Having Adequate Capital**
5. **Managing Finances Effectively**
6. **Managing Time Efficiently**
7. **Managing People**
8. **Satisfying Customers by Providing High Quality**
9. **Knowing How to Compete**
10. **Coping with Regulations and Paperwork**

Challenge No. 1: Knowing Your Business

"People who succeed are the ones who know the most about what they are doing."

Without exception, small business owners agree that knowing your industry is fundamental — and vital. In a highly competitive business environment, expert knowledge of your industry practically dictates your success.

Small business owners believe that knowing your business entails in-depth industry knowledge, market savvy — such as competitive knowledge and how to attract customers — and a certain practical knowledge of how to find suppliers and distributors. Owners believe the necessary expertise is acquired through a combination of formal and continual study, and on-the-job experience. Unanimously, they recommend that new or would-be owners become as qualified as possible in all of these areas, beginning with professional education.

"Get the best education in your field that you possibly can," advised a manufacturer. "Find out everything that you can and be totally dedicated to spend the time tutoring under the leader in your chosen business endeavor."

This manufacturer valued hands-on experience as well, saying, "I had a number of years in an apprenticeship program, and, at the time, I didn't realize the value of it."

When it comes to professional knowledge, all agreed that successful small business owners have the experience and background in their chosen area.

It is critical to expand this basic knowledge into overall familiarity with the marketplace. A manufacturer advised entrepreneurs to "research to make sure the need exists for the service or product ... that people you're selling to can afford to buy it, and to ensure that they can access it." By access, he meant having a good business location or distribution system.

Market knowledge also includes knowing how and where to find customers, learning about the competition, and discovering what the market can bear. These aspects of professional knowledge will be discussed in Challenge # 9, "Knowing How to Compete."

Practical knowledge — such as knowing every bit of the production process, dealing with suppliers and finding good distributors — will help an owner manage finances effectively (Challenge #5). To ensure success, one owner recommended that you "go in knowing what it will cost to produce it, the fixed cost, the variable cost per product, and the market potential."

This practical knowledge implies a kind of street smarts: "Know about distributors, about price and quality," offered one owner. "Know where you can get the best quality for the price you can pay."

Keeping on top of all these facets of an industry is an ongoing challenge for small business owners. To stay current, many rely on trade journals. "I read voluminously," said one owner, "and receive a lot of trade magazines." Another owner stated that trade magazines "sometimes reflect (the position of) a client I might have ... allowing me to understand what my clients are doing." Finally, another owner espoused trade magazines because they can "tell you what's coming into the market. What has been successful. What it takes today to get a product out."

However, personal contact with customers, suppliers, distributors and even competitors is generally most valued, and is obtained by joining industry associations, participating in trade shows and developing informal contacts.

"I go to our national meetings and talk to other people," said one owner, "... attend workshops, do whatever I can to just glean a few ideas from other people so that I can apply them."

In addition to keeping current, today's constantly changing technology is a particular challenge for many owners. "You have to keep up with what is happening in your particular business. Read the trade magazines, your trade newspapers, and so on like that; they're trying to stay on top of it," said a dry cleaner.

This all-important industry knowledge works together with basic business skills and a winning attitude, Challenges #2 and #3.

Challenge No. 2: Knowing the Basics of Business Management

"I found I had to become a business person, something I didn't realize I was going to have to do. I had to learn a lot about accounting, about bookkeeping, about the banking business."

In addition to knowledge of a specific field, small business owners need to know the basics of managing a business — for example, the principles of accounting and bookkeeping, production scheduling, personnel management, financial management, marketing, planning for the future, and more. Many owners feel they were underprepared in these areas, particularly in the financial aspects.

One of the best management skills to have, according to a golf equipment manufacturer, is fearless self-knowledge. "Be qualified to run your business," he advocated. "Be aware of your own weaknesses and go out and get help to make up for those areas ... to get through that first one or two years."

Other executive skills are also important. A computer engineering consultant stressed her need "to be able to do briefings properly, comfortably, to gain confidence of groups of people ... to quickly communicate my capabilities and my company's capabilities."

Executive skills also include goal-setting and decision-making, and human resource development. This last aspect is important, noted many owners, because it builds the future of a business. Not only must you find and retain good employees, but you must continually train them to ensure that you have a qualified staff as the business grows.

Another common theme expressed among the many small business owners interviewed was the need for good sales skills. During start-up, many of them found themselves sales people for the first time.

As a business grows, the need to further develop management skills intensifies. In addition to such areas as managing people, the ability to plan is an essential skill that builds the future of a company.

"Planning," according to one owner, "includes the idea of budgeting not only for your present conditions, but also planning for the future." Anticipating what your industry will be like several years down the road, where the competition is directing its efforts, what customers will want in the future, and where profits should be reinvested are some examples of what must be included in planning efforts.

To help with ongoing planning during the life of their businesses, many owners develop a formal business plan before starting or purchasing a company.

"We did a lot of planning before we started," recalled a publisher. "We did the whole business plan and marketing plan, and planned out how much revenue we were going to receive for the first year and how much money we were going to need to get us through."

Business plans usually include projections of fixed and variable expenses, and analyses of the company's break-even point (the amount of sales necessary to cover expenses), competition, and projected sales. A business plan also includes strategies for marketing and growth.

This establishes a permanent but flexible "game plan" that provides guidance when difficult decisions must be made. Other planning tools, such as annual marketing plans, spell out specific steps to be taken to reach short-term goals.

During any kind of planning activity, outside consultants such as accountants and lawyers, and agencies such as the Small Business Administration, can provide valuable expertise.

Finally, one of the most important but often overlooked aspects of planning is how or when to leave your business. A successful financial services business owner insisted that this should be included in the initial business plan. "By the time many people are ready to sell their businesses," he explained, "they're so personally involved in the business that they cannot make an objective decision. The decision to divest oneself of a business is a highly emotional and difficult one. By establishing early-on

the conditions under which a business will be sold, you can make a better decision."

Challenge No. 3: Having the Proper Attitude

"The first thing I tell my kids is, if possible, find something that you love that has the potential of being a successful business. Enjoy what you do. Ideally it's something you'd do for nothing."

Small business owners agree that the proper frame of mind, realistic expectations and strong personal commitment to your venture are at least as important to a business' success as industry knowledge.

"Want to win," recommended one owner. This absolute drive to do what you love is necessary in order to withstand the demands of starting and running a business. Small business owners unanimously agree that starting a business requires long hours — even longer than most had anticipated.

"Make sure you want to devote a lot of time to it," advised one owner. Another disclosed how the demands can hit closer to home: "My biggest first-year challenge was long hours," he said. "I knew they were going to be long. I didn't know they were going to be that long. It affects your family — you're not there to do all the family things you had been doing before you went into business — and that in turn affects your business."

Long hours and the normal strains of business usually add up to stress — and coping with that stress is a major challenge for small business owners. A supportive family and the will to succeed see many owners through that critical first year.

"The hardest challenge for me and my wife during our first year was the stress," disclosed one owner. "A combination of things helped me deal with this. Certainly, my love for my wife, who is my partner, and a great deal of love and affection for the business. We really like what we do ... not every day, but most of the time it is fun. They say that business is tough when you love it, but it would be impossible if you didn't. And I think that had a lot to do with making it."

Maintaining the necessary high energy level over time is another major challenge — but with the right attitude, it can be a *fun* challenge.

"Early on I worked the hours. But I never noticed it...getting up in the morning and going in there and chasing that business around was the most fun I ever had. Talking to people about it. Sitting down with other people in the same kind of business. I mean, I just lived and breathed it for a good three and a half, four years, sixty hours a week. But it was fun. Just a thrill."

Another extremely successful small businessman who had recently started his fourth business explained why he had come out of retirement — for the second time — to do it all again: "It's more fun than I've ever had," he said.

Realistic expectations are also important. "Be realistic," advised one owner, "don't expect the worst, but don't expect the world." Every business has its setbacks — "Prepare yourself for failures," recommended one owner — but commitment and the right attitude carry owners through.

Finally, owners stress that to be successful you must have the right motivation. A "get-rich-quick" mentality is unrealistic and will probably lead to eventual failure ... while a deep commitment to quality can help you take off in the other direction. 14

"The idea of integrity, to be in business to serve others, is the only way in which to be productive. Chasing the almighty dollar may help for just a little while, maybe weeks, months or years, but it is still just a little while. To be able to always have people receive you in a positive manner in your business, performance is very important. Without it, I don't care what you are selling."

Challenge No. 4: Having Adequate Capital

"The first thing we did was to establish financing and credit relationships. Make a bank contact. A lot of our successes have been dependent on that relationship."

"Establish a good working relationship with one or more banks early in the game. There's always a large contract that comes up when you need working capital."

"Have enough capital to withstand slow periods and competition ... all of those things that nobody told you were going to be there. Many people go into small businesses who have enough capital or enough assets to open the doors — but not enough to withstand the pressure from competition and accounts receivable during all of that first year."

Small business owners concur that having sufficient capital is essential to surviving the first year, which inevitably brings unforeseen challenges.

How much should you capitalize? Based on the experience of others, you should count on obtaining more than you think necessary: "Double your estimates of the cash you need to have during the first year," advised a retailer.

"Look at whatever you're going to do," advised another, "and then look at the worst possible thing that could happen. Prepare for the worst case scenario. Borrow twice as much as you think you're going to need. Or, have access to that amount."

Credit lines are an important part of capitalizing a new venture, as indicated by some of the business owners quoted at the beginning of this section. A line of credit enables a company to meet ongoing capital requirements or to capitalize on business opportunities.

However, obtaining credit from suppliers can be difficult for the new company. "In starting out a small company, you may have to pay cash for a while."

To help tell their business' story to potential creditors, many small business owners find maintaining a business credit report on their company helpful. "It gives you a standing in the community to be rated," believed one owner. In addition, owners recognize the value of keeping their company's report current.

This difficulty in establishing credit is only temporary. "After they've done business with you for a while," assured the same owner, "they'll start giving you terms."

Some small business owners perceive that suppliers are becoming even more discriminating about extending credit, demanding detailed financial information even from established customers. One way to meet this challenge, say owners, is to form basic business partnerships with bankers, local vendors, and Dun & Bradstreet, to keep your company's business information report as accurate as possible. Many owners report that they have found

the business information report an excellent forum in which to tell their company's unique story.

Having sufficient capital and credit are one important part of owning a small business. Managing overall finances — Challenge #5 — is also critical to success.

Challenge No. 5: Managing Finances Effectively

From the start of a company …

"You know, the first year you're just trying to keep the doors open. You're a one-man operation so you're kind of close to everything…I always thought, gosh, more sales, you're in hog heaven."

… to managing growth …

"But managing growth is almost as tough, if not tougher than, start-up. If you don't have enough working capital, increased sales can really give you a problem because of the (increased) receivables, because of the commitments (to suppliers) coming due before the money comes in."

… cash flow is the pervasive financial management issue for small business owners. It manifests itself in ongoing capital, managing inventory, extending credit to customers and managing accounts receivable.

Many small businesses struggle just to make ends meet, especially during the start-up period. A "hand-to-mouth" existence often continues beyond the first year. Often, a little juggling is required:

"I looked at the checkbook this morning and it didn't look real healthy, and I know Friday's payday. I do have a little job we can start tomorrow, weather providing, and I know I'll make enough off that job plus what I

already have to make payroll this week. Then I'll put off another job that I probably shouldn't, because it's a job that I know I won't get paid for within thirty days."

Inventory is a pivotal area for non-service businesses. "You maintain your profit margins by turning your inventory quicker," explained a sporting goods distributor.

The key to success is maintainirg good inventory, the appropriate amount and a good mix of merchandise. "Don't keep any dead inventory around," continued the same retailer. "If you've got bad merchandise, get rid of it. Keep a clean inventory, a saleable inventory." The ideal thing is to be able to turn your inventory more often.

Careful control will also help. "To help cash flow," explained a different owner, "I monitored my inventory as carefully as I could."

Another challenge to successful financial management is extending credit to customers — a necessary part of many businesses. Customers often expect it. However, many owners find it difficult to evaluate the credit risk of potential customers. One suggested "looking at their financial statement, and then trying to make a good decision." Another thought it a good idea to evaluate risk based on the amount of potential business: "If a guy wants work done, yes, I'm going to check him out."

Monitoring accounts receivable to assure a steady cash flow is a universal concern of small business owners. "Cash flow's the biggest problem," said one owner. "If you can't keep track of your receivables and follow up on them, you'll always have a cash flow problem."

Cash flow is also an area where the experts are full of helpful advice: "Keep a close eye on your receivables. Don't let them get too far out.

I've got suppliers that give me 30 days and on the 31st day, they'll call. Stay on top of who owes you money and don't let it slide. You don't want to make more sales, necessarily; you want to get paid for what you sell first."

"The basic thing we did was to make sure that when a job was completed, the invoice was out in the mail the next day. We also followed the job through to make sure there weren't any problems. Using this two-step approach, our receivables usually came within the terms of a normal 30-day period. This kept our cash flow steady."

Many small business owners use professional services to help manage the financial aspects of their businesses. Accountants are the most frequently relied-upon advisors; many businesses also tap the expertise of a lawyer, especially when incorporating their business or purchasing an existing one.

"There's an image factor involved with that, too," commented one owner. "Your professional services are the best money you'll ever pay for. Law is extremely complex. Accounting is extremely complex. People who think they can handle that in their own businesses are really fooling themselves."

Challenge No. 6: Managing Time Efficiently

The long hours and variety of tasks required to manage a small business demand good time management skills. Every small business owner feels stretched, especially during start-up. Running any kind of business involves many different responsibilities and little time in which to fulfill them. This is a continual challenge that is especially taxing during start-up. A pharmaceutical consultant summarized the problem:

"When you're starting off, you're doing everything yourself. You have to be a part of everything that's going on. You have to be at every point of the operation ... the challenge is while you're working on your business, you're not spending time working on cash flow, attending to business management or planning for the future."

A contractor gave a more personal picture of the long hours required to keep a business running: "When I started out, I was out running the equipment trying to get the job done, but I was also out beating on doors and passing out cards, talking to people at 10:00, 11:00 at night and trying to line up the next day's work. There are only so many hours in a day."

The freedom to delegate responsibilities to people who can fulfill them is important to small business owners, who often find their time stretched

to the limit. "One of my top pieces of advice to an aspiring young business owner is to surround yourself with good people," said one successful owner.

Another owner said that when he "bought an existing business, I came from a corporate atmosphere. The first thing I put on my list was to delegate. Hire the best, most qualified people you can, whatever the area is; and then delegate. Give them the responsibility, as much responsibility as you can."

Stores are full of books on time management, and indeed, small business owners reported that this is one of their favorite topics. Some owners reported that they also attended time management seminars.

Based on the input of owners, telephone calls and appointments are two key areas of time management. Several owners reported that they group their calls during specific times of the day — first thing in the morning, right before lunch, and at about 5:00; people are most likely to be in their offices during these times.

The owner of an advertising agency who spends substantial time on the road and in clients' offices, said that she schedules groups of appointments wherever possible. She has disciplined herself to set aside Mondays and Wednesdays for appointments and uses the other three days to be in her office. "By sticking to this schedule as much as possible," she said, "clients know when they can reach me. Also, I can schedule work more efficiently."

Another successful technique that many owners use is referring back to their business plan. This helps them set priorities and ensures that they spend their time where it will be used most effectively.

The penalties for not using time wisely can be stiff. Many owners reported that they knew of many businesses that had failed because the

owner hadn't "worked the hours." At best, inefficient time management can prevent a company from running smoothly and cost-effectively.

Owners summarize their time-management methods in a three-point plan:

1. Be disciplined about your time. Making a business successful demands your time. Again and again, owners stressed the importance of putting in the hours.
2. Stick to your original plan. When in doubt about where to put your time, check your business plan for priorities.
3. If you have the opportunity, delegate responsibilities to those who can fulfill them.

Challenge No. 7: Managing People

"A positive representation of your business has to do mostly with your employees. My employees have to know what my goals are and what type of service or image we want to portray to the community."

Finding, keeping, and managing good personnel, both hourly employees and management, ranks among the major challenges for small businesses. Many owners believe that it is critical to success. Their thoughts were expressed by an owner who recommended, "Make sure you have good employees before opening your doors."

"I would suspect that almost every one of us failed to recognize that at some point you need to support yourself with good people," disclosed another. "Surround yourself with competent support people."

Finding qualified employees can be a real challenge. For example, in addition to competing with larger companies for business, small business owners find that they must also compete with each other when it comes to hiring good employees. "One of the big challenges facing relatively small businesses like us," noted an owner, "is attracting the best talent we can get. For small companies to get somebody good, they've got to offer a lot." Another owner explained that "it's difficult competing against the big guys who have lower costs of doing business."

Nonetheless, small business owners believe in their ability to compete for good employees because they can offer some benefits that big companies cannot — such as flexible schedules, loyalty and other intangible benefits.

The road to building a competent staff is often paved with challenges. Many small business owners find it difficult to select the right employees. Retaining good help is particularly difficult. The owner of a civil engineering firm hit the nail on the head: "It's very hard to keep people who are loyal to you *and* who want to put the hours in. Otherwise, they'd be in their own business."

Motivating employees through encouragement and guidance helps to build and retain a competent staff. Here, too, a realistic and supportive attitude can help meet the challenge:

"Getting the help to believe in themselves is tough," explained an owner. "I say, 'Look, we're only human and we're all going to make mistakes. Let's just hope that the mistakes you make don't cost us a heck of a lot of money. I make some big mistakes myself. You've just got to accept the mistake and turn it into a positive.' Showing people *that* settles everyone down and gets them to believe in themselves."

Motivating employees to consistently deliver quality is critical to business success, particularly for a service business. Owners must communicate their goals effectively and train their employees to help achieve these goals. All this requires a delicate balancing act.

"You must have people who are qualified or train them to be qualified," explained one owner. "They have to be well paid, not overpaid. And, you have to take care of your employees."

Another owner explained that he spent time on establishing a positive and responsible attitude in his staff. "Establish that in their minds first," he advised.

Generally, owners rely on employee training to ensure that their staff is competent and has the right attitude. For instance, one owner said that "one of the things that can help is an internal education program and a proper training program. Also, have a quality assurance review of what you're doing before the product goes out the door."

Compensation is a second effective method to motivate employees into conveying a positive attitude and working responsibly. As you might expect, many owners find this a particular challenge. While small businesses typically do not have the resources to pay high wages, they need to adequately compensate employees in order to attract and retain them.

"Be sure that you can pay decent salaries to the people you hire so that they'll stay with you and help the business grow," advised a retailer.

Benefits are another important way to attract and retain good employees. A fair and generous benefits package helps employees feel both valued and secure — two important characteristics that small business owners feel

they can offer to their employees. Even the smallest of businesses can offer such benefits through group programs.

Being creative with intangible benefits is another effective way to retain employees. A bookstore owner recommended that you "figure out other ways to compensate them. We give them special discounts on what they buy within the store. Also, I try to be flexible about their hours."

When an employee doesn't work out, then what? Many owners find this one of the most challenging aspects of the business. Often, the difficulty of firing an employee leads owners to retain weak players longer than they should. As explained by one owner, "You have that instinct that they are not going to make it. When do you get rid of them? You keep them too long. I've run into that."

"It's the hardest thing in the world," said another. However, you are

doing the employee a favor as well as your business when you suggest that such a person will be better suited to another job if he or she simply doesn't fit.

Challenge No. 8: Satisfying Customers by Providing High Quality

First and foremost, recommend owners, commit yourself to providing quality. This establishes and maintains credibility with your customers.

"You must be willing to commit yourself to supplying the absolute best product of the industry you go into. Not being an also-ran but telling yourself, 'I am going to throw a touchdown every time I open the doors in the morning.'"

Deliver the best possible product or service and do everything you can to ensure that your customers are satisfied. This is the creed by which small business owners everywhere live. Upholding it is a constant challenge.

Another business owner put it in direct terms: "Your customers are going to dictate whether or not you are going to succeed. If you don't please them and if you don't listen to them, you won't succeed."

"My theory in business," explained one owner, "is if I do a good job for you, I hope you tell one or two of your friends. If I do a lousy job for you, you're going to tell everyone you see. Never forget that you have competition."

It's important to build and develop credibility because it builds your business. Yet, as one owner stated, "Growth and reputation are the hardest things to come by."

The owner of an interstate trucking company explained that "the one common thread through every type of business is people. It's still a people's business. You'd better have credibility. You'd better have the talent to do what you're supposed to do, first of all, but that's only just a part of it. Get credibility and maintain that credibility. Know that the people you're servicing are going to say good things about you to other people — because that's how you're going to build your business."

This commitment to quality is indeed vital. Just look at how seriously small business owners take it: "Make sure your quality of work is still top-notch and has been from start-up. Make sure you haven't slid or suffered, that your name and your recognized quality are still there," advised one.

Customers are the foundation of your business. Thus, it is absolutely essential to do everything possible to please them. Often, initiating dialogues with customers can be of enormous value in helping to provide better service. "We wanted to evaluate the reputation of the company we purchased," explained a printer, "so we went directly to clients to find out exactly what they thought about it.

"The response was tremendous," he continued. "They'd never had someone who really cared enough about their business to ask them how they wanted the products produced for them. That feedback on a direct basis with my other partners was invaluable. It turned things around for us."

Small business owners find that quality is still the best way to please customers. "Make that product better than anybody else can," advised an owner. "Do the best job that you possibly can."

As a business grows, it's important to maintain quality — but when

sales begin to increase, it can be a major challenge to keep the original commitment to the quality and benefits of your product. Thus, most businesses set a goal for controlled growth.

"Whatever credibility you may have built up on your reputation or your performance suffers if you've got more work than you can handle," offered an owner. "You can't properly perform it. You can't properly manage it. Your work starts getting shoddy. That will destroy quite a bit of effort you've put into getting there."

Sometimes satisfying customers requires taking extraordinary measures, but owners believe it's the best way to maintain their reputation *and* protect their business.

Challenge No. 9: Knowing How to Compete

"My best advice for competing successfully is to find your own distinctive niche in the marketplace. It could be price, or variety, or service ... whatever it is, stick to it."

To keep customers and add new ones, owners stress the value of *knowing* how to compete. They have learned through experience that there is a difference between "just plain competing" — for example, relying on low prices — and knowing how to compete effectively. Owners believe that competitive savvy means being true to what made them successful in the first place — keeping the integrity of their original vision, growing strategically, and above all, using their strengths as leverage in the marketplace. All this is achieved while keeping an ever-vigilant eye on what the "other guys" are doing.

Again and again, owners stress the value of adhering to their original plan. "My goal is to make my business profitable without compromising our values," stated one toy retailer.

To achieve his goal, the retailer concentrates on his distinctive niche. "People come to us because they like our personal service," he explained, "but sometimes they only have so much money to spend. We have overcome this by becoming more of a specialty store."

Owners sometimes struggle to uphold their commitment in the face of stiff competition — but they find that maintaining the integrity of their idea and focusing on their strengths are the best long-term competitive strategy:

"I've seen our industry going through price-cutting that is absolutely staggering," noted a construction equipment lessor, "but I have not participated in it. Yet, I have grown and prospered and made a nice profit, and we are consistently the highest-priced people in the marketplace. In the long run our quality shows our customers that we are the cheapest to do business with. You spend an awful lot of agonizing evenings and days trying to decide whether to participate in the price-cutting game — do you try to just gain market share and kill the competitors? If you have a quality product, you probably will kill your business at the same time. It takes guts and commitment to withstand that, to rally your sales staff around you and say, 'We are not the cheapest, but we are going to be the best.'"

To keep capitalizing on their strengths while sales increase, most owners set a goal for controlled growth.

"You can grow too fast," noted a contractor. "You don't want to take on more projects than you can complete. And, you don't want to take on more than you can finance."

How do owners expand their customer base? Most rely on a variety of methods. Eventually, they develop a mix of keeping their sales staff motivated and marketing effectively.

"You learn better sales and motivational techniques," said one wholesaler. "Make sure your people continue to learn new ways of selling." Effective marketing involves communicating the benefits of your product or service to obtain new customers. Owners rely on a variety of methods, usually tailored to what works best for their particular business.

"Word of mouth is big," said one retailer. "We live in a community that is pretty good about passing on the good word." This owner also used advertising and the yellow pages to keep his name out in front of the market. In general, he advised to "find what works and stay with that." Those who could afford it found value in tapping the expertise of outside marketing consultants.

Of course, effective marketing inevitably includes being aware of your competitors' activities. "You have to be very cognitive of the competition and what they're doing," noted an automotive glass replacement shop owner. A businesswoman explained that "knowing where you stand relative to your competition allows you to position your own product in relation to the market" — referring back to the theme of knowing where your strengths are and capitalizing on them.

It is at this point that pricing does become an issue for small business owners. Inherent in the concept of small business is that you cannot discount on low volume — so to make a profit while being price-competitive, owners advise that you establish an identity, stick to it, and communicate it.

"What do you give your customers that your competitors do not," asked

one successful owner, "and what is that extra something worth to your customers? That's the whole concept of value-added services, and that's how you establish your prices."

"To get higher prices," advised another entrepreneur, "do something different that no one else is doing."

Challenge No.10: Coping with Regulations and Paperwork

The person who enjoys paperwork is rare in our society — and small business owners are no exception. In fact, since people who start and manage their own businesses tend to be "doers" — active people who like to accomplish things — they may be the most frustrated by regulations and paperwork.

Most find meeting government paperwork requirements cumbersome and time consuming. For many, developing systems to help process this paperwork more efficiently is something to be done "someday ... when there's more time."

Regulations and paperwork come in a myriad of forms, from quarterly tax payments to withholding taxes, manuals that communicate employee rights and benefits, regulations covering profit-sharing and pension plans, to sales tax records and industry-related reports that must be filed.

One owner said that he would "hire an efficient manager if we had the funds. I'm too bogged down with paperwork."

Red tape is sometimes encountered in unlikely places — such as selling a building: "Today when you sell an industrial building," explained one owner, "it has to go through an agency that will check the land the building

is on, to make sure that it's not environmentally unsafe or that it doesn't have any toxins."

Another owner said that "if you own a piece of land that's in what they call wetlands or a flood plain, it might take years to resolve those requirements."

Many businesses have found that outside consultants can help with the paperwork and meeting regulations.

"We have an on-line computer system that attaches us to a databank of consultants," said one owner. "Whenever we have a problem we tap into that and retrieve data from it."

When it comes to employee withholding taxes, more and more small businesses are finding help from payroll services. "These services are worth the money," said one owner. "I speak as an accountant with the full ability to do it. My time is worth more in the business."

"We have six people and we were doing the payroll ourselves," explained a distributor. "But you just can't help but get bogged down with the various state and federal laws, plus the quarterly reporting and annual reporting. It was just a mind-boggling experience for us all. We decided to go to an expert; we just got a payroll company to handle it at remarkably modest fee. It literally solved the problem. It was an incredible weight off our shoulders."

Another owner agreed. "It's basically taking that pressure, and that part of the business, away from me; and so far it's been great."

Many different industries today are regulated by outside agencies. If you're going into one of these industries, owners recommend that you make

sure you know the correct filing dates and regulations. Here, too, outside agencies can be of substantial help.

"We've been using a lot of consultants," noted one owner, "especially when we have to do an environmental impact statement."

Someone else commented that "in our industry we have a whole new business that was created by the environmental impact. We have people, engineers, whose sole function it is to go out and check a piece of property to see if it's wetlands or flood plain; you have to use them on practically any operation you do of any size."

No doubt about it — regulations and paperwork are an essential part of business. However, sometimes red tape is a good thing. Some owners appreciate the standards that regulations can set for an industry or product and that they often keep an industry "clean" of disreputable competitors.

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Just like other small businesses, Dun & Bradstreet began 150 years ago as an idea and a dream. The simultaneous expansion of trade in a young country and the failure of more than 600 banks during the Depression of 1837 gave Lewis Tappan his idea: reduce the risk of credit sales by bringing an impartial third party into the buyer-seller relationship. Tappan opened his Mercantile Agency in New York City in 1841. Eventually the Mercantile Agency grew into The Dun & Bradstreet Corporation.

From the Industrial Revolution of the 1840s and '50s to the Information Age of today, small businesses have continued to pursue their dreams while using Tappan's original idea.

Today, the partnership between small business and Dun & Bradstreet continues. Providing services that can help small business owners both receive credit more easily and extend credit based on good information, plus collection services and the world's largest selection of business information services, Dun & Bradstreet remains an active proponent of small businesses. The sponsorship of this brochure is one small part of that advocacy.

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